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SIPDIS

SENSITIVE
SIPDIS

DEPT FOR SCA/PB, EEB/TPP/ABT/ATP JANET SPECK
NEW DELHI FOR FAS
BANGKOK FOR USAID
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TAGS: [EAGR](#) [EAID](#) [ETRD](#) [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [BG](#)

SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES -
BANGLADESH

REF: STATE 39410, 07 DHAKA 1590, 07 DHAKA 1745, 07 DHAKA 1801, 07
DHAKA 1808, 07 DHAKA 1882, 07 DHAKA 1902, 07 DHAKA 1903, 07 DHAKA
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DHAKA 213, DHAKA 219, DHAKA 242, DHAKA 292, DHAKA 310, DHAKA 360,
DHAKA 442, DHAKA 469

¶1. (SBU) SUMMARY: Recent natural disasters that strained the country's food supply have exacerbated in Bangladesh the effects of high food and commodity prices worldwide. High prices and the loss of some domestic food supplies and livelihoods threaten the food security of Bangladesh's desperately poor population, which suffers from long-term nutritional deficits. Entrenched poverty and high food prices contribute to a trend of creeping famine in Bangladesh. Food problems, in turn, threaten the country's weak interim government, which is trying to preserve a moderate Muslim democracy in a difficult neighborhood. The discussion below is keyed to reftel topics. END SUMMARY.

DEMAND

¶2. (SBU) Rice is Bangladesh's main food staple. While Bangladeshis also consume wheat, pulses, vegetables and edible oils, in times of food crisis, rice becomes all important. According to the UN Food and Agriculture Organization (FAO) in Bangladesh the average wholesale price of rice increased by 61.8 percent in the first quarter of 2008, compared to the first quarter of 2007. Wholesale prices for other food items, including flour, edible oil, pulses, eggs and milk powder rose anywhere from 23 to 68 percent in the past year. The International Monetary Fund (IMF) estimated food inflation in Bangladesh to be 14 percent in January, year-on-year.

¶3. (SBU) Currently Bangladesh is a net importer of food, including rice. The U.S. Foreign Agricultural Service (FAS) estimates Bangladesh will need to import as much as 3.2 million tons of food grain to meet its food needs this fiscal year. (NOTE: The fiscal year in Bangladesh runs from July 1 to June 30. END NOTE.) Bangladesh's domestic food production provides only the most basic subsistence to its population. In this desperately poor country of close to 150 million people, the World Bank estimates that 84 percent of its population subsists on less than USD 2 a day, and 41 percent lives on less than USD 1 a day. Bangladesh's rates of undernourishment and stunting are among the highest in South Asia. According to FAO, 30 percent of Bangladesh's people are undernourished. Among children under 5 years of age, 48 percent are underweight and 43 percent are stunted.

SUPPLY

¶4. (U) Food supplies in Bangladesh were affected by natural disasters in 2007. Two of the three annual rice crops in Bangladesh were damaged by floods and a cyclone. Rice production for fiscal year 2008 is projected to be 28.7 million tons. The Government of Bangladesh (GOB) estimates that 1.4 million metric tons of rice must be imported to meet crop shortfalls caused by natural disasters in the past year. In a normal year, Bangladesh only needs to import 600,000 to 900,000 metric tons of rice. In the past Bangladesh's rice imports have come predominantly from India. India's ban on rice exports has forced Bangladesh to source rice from other countries; the ban has also complicated efforts by the GOB to obtain 500,000 tons of rice promised to Bangladesh by India in the wake of Cyclone Sidr. A potentially positive development in Bangladesh's food supply situation is the upcoming harvest of the country's largest rice crop of the year, which farmers will start collecting in mid-May. Experts predict that, barring any natural disasters, this crop may result in 16.3 million tons of rice, up from 14.9 million tons last year. The GOB's ability to purchase grains for public stockpiles is hampered by an inefficient procurement system; for example, public tenders for wheat are subject to cumbersome terms and conditions that discourage suppliers from participating in government tenders.

¶5. (SBU) Certain populations within Bangladesh are suffering acutely from food shortages. In southwestern Bangladesh, between 8 and 12 million people had their livelihoods devastated in November 2007 by Cyclone Sidr. The region's only rice crop of the year was destroyed by the cyclone; residents of Sidr-affected areas will have to purchase rice until their next rice crop can be harvested in

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November 2008. Millions, however, lost the means to purchase food as a result of the cyclone (reflets). In the Chittagong Hill Tracts in southeastern Bangladesh, close to 130,000 indigenous people face famine and are scavenging for roots to eat as a result of an infestation of rats that has decimated food supplies in the region (reflets).

POLITICAL IMPACT

¶6. (SBU) Bangladesh's food crisis threatens the country's fragile Caretaker Government (CTG). (reflets) In a survey conducted in March by The Asia Foundation, 80 to 90 percent of Bangladeshis surveyed said they were worse off economically under this government than under the previous government. Thirty to forty percent of those surveyed said they had low or extremely low confidence in the CTG, up from 20 to 30 percent in February. Since January, thousands of garment workers have staged protests over high prices and low wages. The government is especially sensitive to discontent in the ready-made garment (RMG) sector, which supplies the country's main export earnings and employs close to 2 million workers. The average wage for a garment worker ranges between USD 45 and 90 per month. Food security has political ramifications in Bangladesh and threatens the stability of an already-weak Caretaker Government committed to hold elections and restore democracy in the Muslim-majority nation.

ECONOMIC IMPACT

¶7. (U) Rising food and fuel costs are driving inflation in Bangladesh. Year-on-year inflation reached 11.5 percent in January, primarily as a result of higher food prices, according to the IMF. In March the GOB reported a need in the near term to import an additional USD 600 million in food, fertilizer and other goods to offset the food crisis caused by natural disasters. The World Bank, the Asian Development Bank and other key donors have financed about USD 400 million of this through aid and budgetary support. The IMF recently granted Bangladesh USD 218 million under its Emergency Natural Disaster Assistance program to help stabilize the country's reserves at 3 months of import cover. Bangladesh's trade deficit is

projected to be USD 5.6 billion in FY 2008, up from USD 3.5 billion in FY 2007, due in large part to the food situation.

ENVIRONMENTAL IMPACT

¶18. (SBU) The environmental impact of Bangladesh's current food crisis has yet to be measured. In order to meet demand for rice, farmers are shifting production away from other crops into rice and are likely utilizing marginal land to eke out as much food production as possible. The GOB heavily subsidizes fertilizer prices and has anticipated supplying more fertilizer to help make up for crop losses.

GOVERNMENT POLICY RESPONSE

¶19. (U) The GOB is addressing inflation mainly through fiscal and administrative adjustments rather than through monetary policy. It is supplying rice to vulnerable groups through its Public Food Distribution System (PFDS); by March the GOB had distributed about 1 million metric tons of rice through the PFDS. These programs include the donation of 15 kilos of rice per month to extremely poor families that have an average of 5 family members. Experts report that many of these families do not have the means to augment this donation, which is not enough to feed a family of five for one month. Experts also doubt that all beneficiaries are receiving even 15 kilos of rice; many families are only receiving 2-5 kilos of rice per month. The PFDS also includes a program known as "open-market sales" (OMS), which sells rice at subsidized prices in urban areas. The GOB has enlisted its border defense force, the Bangladesh Rifles, to assist in administering open-market sales. Lines at OMS distribution points, including one outside the Embassy, have lengthened significantly in recent months, and media reports note that an increasing number of middle class Bangladeshis are purchasing rice through open-market sales.

IMPACT ON POST PROGRAMS

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¶110. (SBU) Where possible, the Embassy has diverted resources in an effort to help Bangladesh cope with its food crisis. This includes calling forward food assistance and increasing livelihood assistance to those who had livelihoods devastated by Cyclone Sidr and the two floods. The Ambassador recently declared a disaster in the Chittagong Hill Tracts to access USD 100,000 in disaster assistance for the food crisis in that region. Post strongly supports the proposal currently being considered in Washington to grant USD 10 million in food aid to cyclone victims through the World Food Program's Cyclone Sidr Emergency Operation (EMOP).

POLICY PROPOSALS

¶111. (SBU) In the medium- to long-term, the GOB could take a number of steps to improve its food situation. It could better utilize technology, including biotechnology, to improve agricultural productivity. Currently, the average rice yield in Bangladesh is 3.5 tons per hectare, one of the lowest in South Asia. Bangladesh farmers should introduce more high-yield varieties of rice, wheat and corn. It could put its agricultural extension system to better use; technical experts at the local level now spend more time administering subsidies than working to improve agricultural productivity. The GOB should better target subsidies, particularly fertilizer subsidies.

Moriarty